Canada Mortgage and Housing Corporation
Société canadienne d'hypothèques et de logement

National Residential Renovation Industry Survey Summary of Preliminary Findings

February 1987

Canada

NATIONAL RESIDENTIAL RENOVATION INDUSTRY SURVEY

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Program Evaluation Division
Canada Mortgage and Housing Corporation

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SUMMARY OF PRELIMINARY FINDINGS

A. INTRODUCTION

This report presents a brief summary of the preliminary results of the Canada Mortgage and Housing Corporation (CMHC) survey of firms in the residential renovation industry in Canada. The survey polled company managers about the nature of their business and about operating conditions within the industry. The survey represents a first-time effort to collect national statistical evidence on industry characteristics and opinions.

Nature of the Survey

The survey was undertaken in November 1986. Company names were compiled from the most recently-published Yellow Page directory for each municipality across the country. The population of renovation firms was based on those listed under home improvement-related categories.

A sample of renovation firms was drawn by taking all of the 175 firms identified in the Atlantic region, and randomly selecting 737 from each of the remaining four regions for a total of 3125 firms. All of the firms identified in the Yukon and Northwest Territories were included in the British Columbia sample.

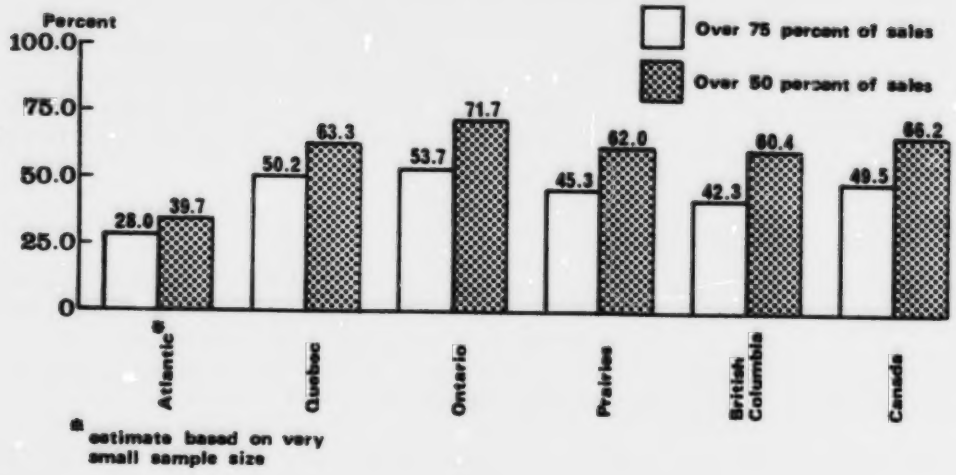
One questionnaire was mailed to each firm to complete and return by pre-paid mail. A reminder card and a second questionnaire were sent to all sampled firms. Those selected for the survey were promised a summary of the results, as an incentive to reply and as a response reward. All respondents were guaranteed anonymity.

Survey respondents were asked to refer to the year 1985 when answering the questionnaire. As a result, some firms chosen for the study were subsequently eliminated if they indicated they were not in the business of residential renovation in that year. The initial sample was also reduced by the number of questionnaires returned by the post office due to inaccurate mailing addresses.

The overall response rate for the survey was 36 per cent. Considering the mail-out nature of the survey and the fact that those replying received no advance notice about the study, this is a very good level of response.

Chart 1.

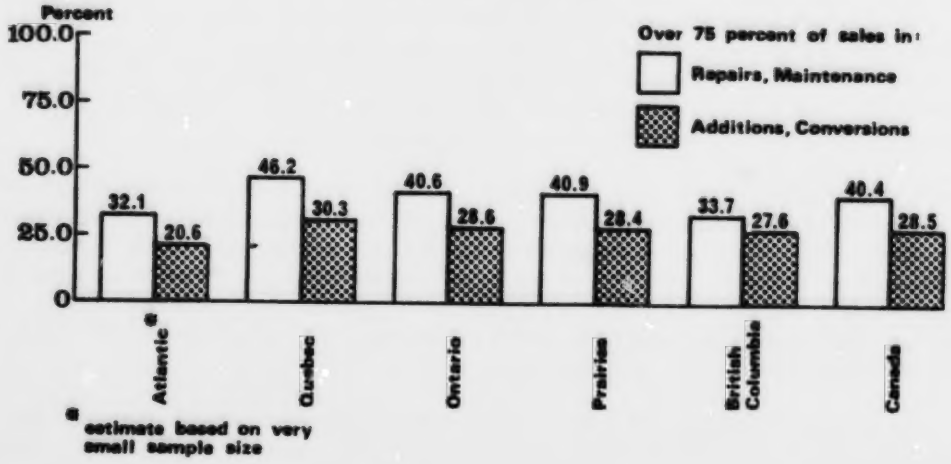
PERCENTAGE OF FIRMS BY PROPORTION OF SALES IN RESIDENTIAL RENOVATION



* estimate based on very small sample size

Chart 2.

PERCENTAGE OF FIRMS BY TYPE OF RESIDENTIAL RENOVATION WORK UNDERTAKEN



* estimate based on very small sample size

There were at least 200 replies from each region with the exception of the Atlantic, for which there were only 31 replies. The Atlantic region results, although too small to be representative of that area, are included in the summary results for comparative purposes.

It is important to understand that results from this survey represent the opinions of only those renovation firms for which a completed questionnaire was received. The information cannot be generalised to all companies in the renovation business since the survey sample is based only on those who advertise in the Yellow Page directories.

Organisation of the Summary Report

This report is divided into four main sections. The first provides a profile of the residential renovation companies responding to the survey by describing aspects of their operation from their size and level of involvement in renovation to their manner of planning and financing jobs.

The second, third and fourth sections include summaries of survey answers relating to perceptions of renovation companies about their information needs, about the business practices within the industry, and about the impact of government on their work.

B. PROFILE OF FIRMS IN THE RESIDENTIAL RENOVATION INDUSTRY

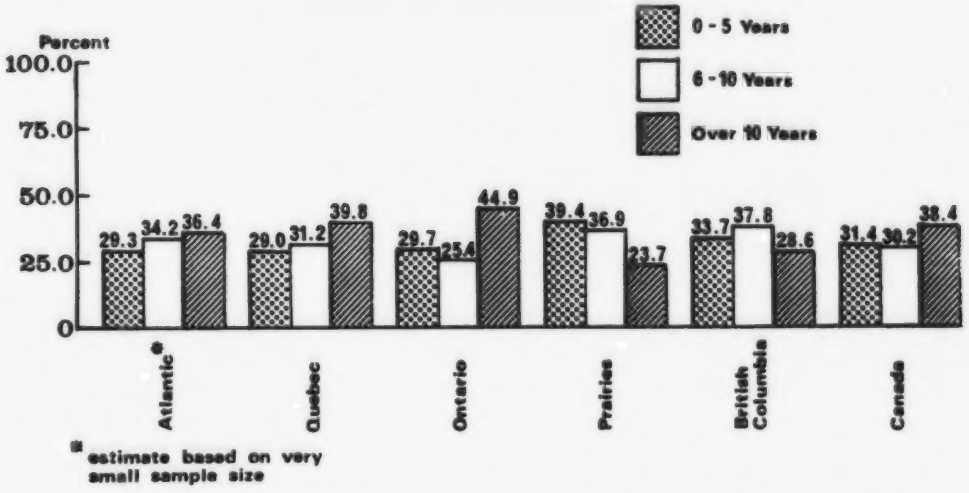
Type of Renovation Work

Residential renovation is the dominant business activity for about one-half of the firms responding to the survey. The remainder do this type of work in addition to other activities. The survey data show that approximately one-half of the responding firms undertook residential renovation work valued at more than three-quarters of their total dollar value of sales in 1985 (Chart 1).

According to the results of the survey, there seems to be a greater proportion of renovation firms specializing in repair and maintenance work than in addition and conversion work. For those responding firms who do home repair and maintenance work, about 40 per cent indicated that they were very heavily involved in this type of activity. With respect to firms which are involved in additions and conversions, approximately 29 per cent responded that these activities represent their primary line of business (Chart 2).

Chart 3.

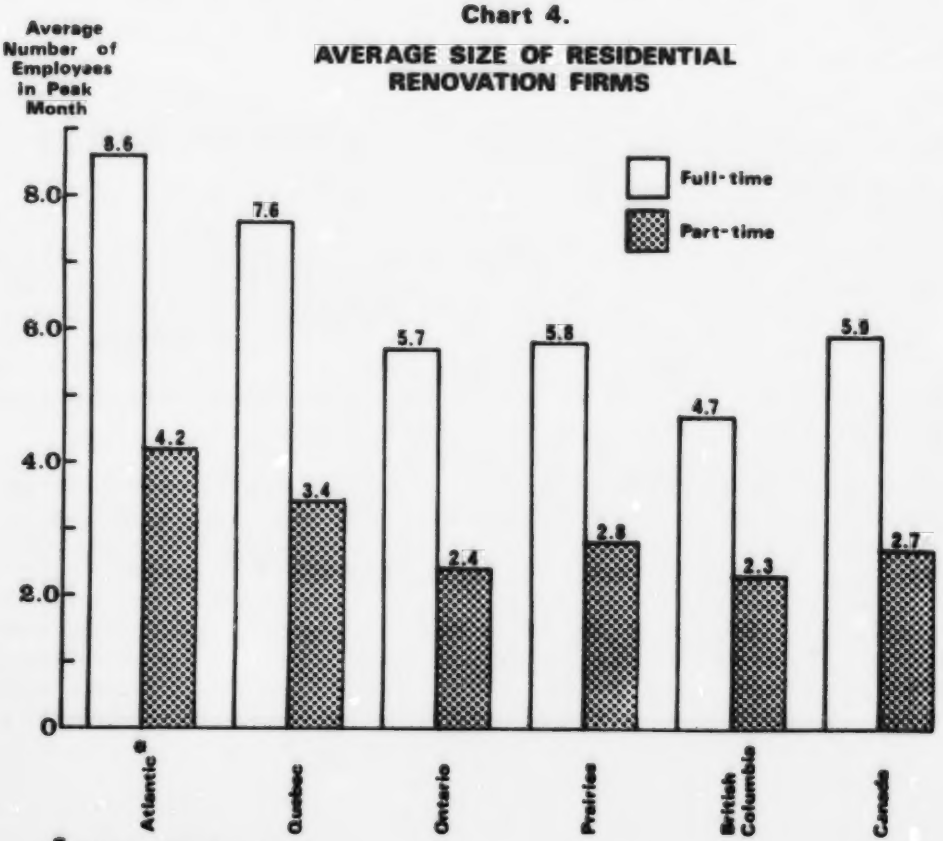
PERCENTAGE OF FIRMS BY NUMBER OF YEARS IN RESIDENTIAL RENOVATION



* estimate based on very small sample size

Chart 4.

AVERAGE SIZE OF RESIDENTIAL RENOVATION FIRMS



* estimate based on very small sample size

Age of Firms

Most of the firms responding to the survey have been in the residential renovation business for 10 years or less. In 1985, 60 per cent of these firms had been involved in this line of work for up to a decade (Chart 3). Firms less than three years old represented only about 10 per cent of those replying.

The renovation industry appears to be more established in Eastern Canada than in the West: For example, 45 per cent of firms responding from Ontario indicated they had been in this line of work for more than a decade, compared to about 29 per cent in British Columbia. Furthermore, firms specializing in repair and maintenance work tend to have been in the renovation business longer than firms concentrating in larger-scale addition and conversion work.

Seasonality

Based on the results of the survey, the business season for residential renovation work extends from May through October. The months of June, July and August represent the peak period in all regions of the country, particularly in Ontario where over half of the responding firms indicated that summer is their peak work season. There is some extension into autumn in the two western regions, especially in British Columbia where 45 per cent of respondents stated that their busiest months were from September to November.

Firm Size

The survey results demonstrate that an average of about three part-time and six full-time staff (including office workers) were employed by the typical respondent renovation firm during its peak month in 1985 (Chart 4). An average of four of these full-time employees and two of the part-time employees were involved on actual renovation jobs.

The data show that, compared to this national figure, average firm size is slightly larger in Quebec. During its peak month, the Quebec firm, on average, employed about eight full-time workers, five of which were involved on renovation projects; and three part-time workers, two of which worked mostly on residential renovation projects.

Financing Sources

Residential renovation firms from every region except British Columbia reported that in 1985 it was easier for them to obtain financing by means of a line of credit than by a bank loan (Chart 5).

Chart 5.

PERCENTAGE OF FIRMS FINDING FINANCING EASY TO OBTAIN

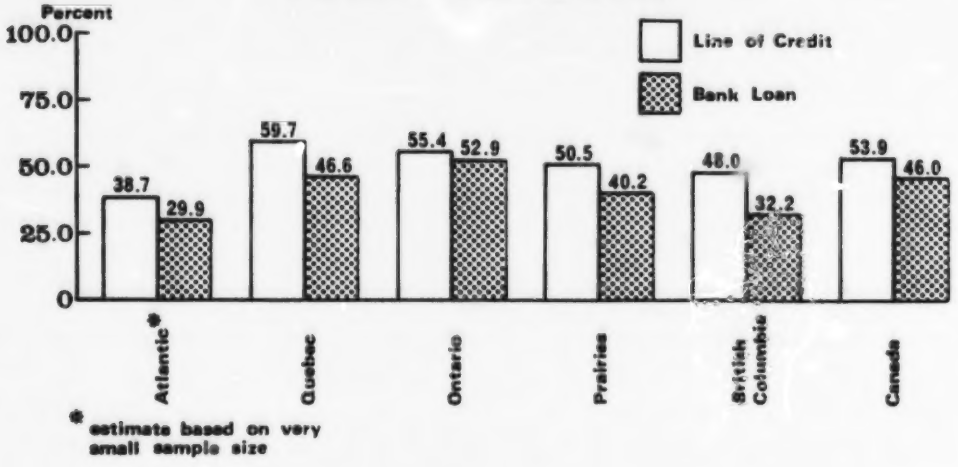
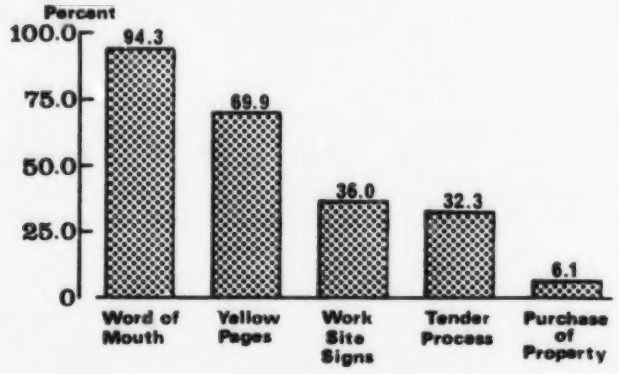


Chart 6.

PERCENTAGE OF FIRMS OBTAINING BUSINESS BY TYPE OF METHOD



Over one-half of responding firms generally found a line of credit to be easy to obtain. About 25 per cent of the firms responding from British Columbia assess obtaining a line of credit as 'not at all easy', compared to 17 per cent nationally.

About one-third of renovation firms reported that in 1985 they experienced at least some difficulties in gaining access to loans from banks or other similar types of financial institutions. The apparent financing problems encountered by renovation firms seem more pronounced in Quebec and British Columbia.

Firms with 10 full-time employees or less mentioned financing as more of a major concern than did larger companies. The survey results suggest, however, that the greater the degree of government financial assistance to the renovation work being undertaken, the less likely were firms to raise financing as a major concern.

Methods of Obtaining Business

All of the firms which participated in the survey advertised in local Yellow Page directories. The vast majority of survey respondents noted, however, that informal inter-personal contacts were the primary means of obtaining business in 1985. More formal means, either through bidding on jobs or purchasing properties for renovation, or by advertising were assessed as being less common ways of obtaining work (Chart 6).

C. INFORMATION NEEDS

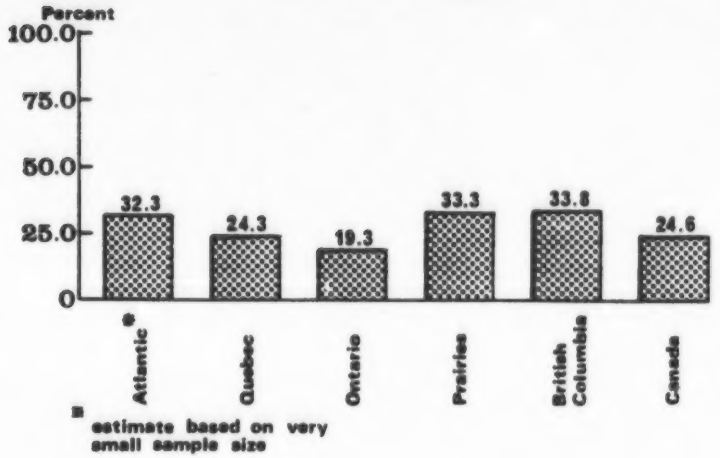
This section reports on the methods which have been found to be useful to residential renovation firms in obtaining information on new products and materials. Also described is the impact of market conditions on the ability of renovation firms to plan their work. Finally, the responding firms' observations concerning the usefulness of up-to-date market information in 1985 is assessed.

Work Planning

About 95 per cent of the responding firms report that they plan their business on a very short term basis: over 40 per cent plan up to one month in advance, while the remainder plan about one-to-six months in advance. This trend is consistent with the survey findings that many respondents are involved in smaller-scale (repair and maintenance) work and obtain their business by way of personal contacts.

Chart 7.

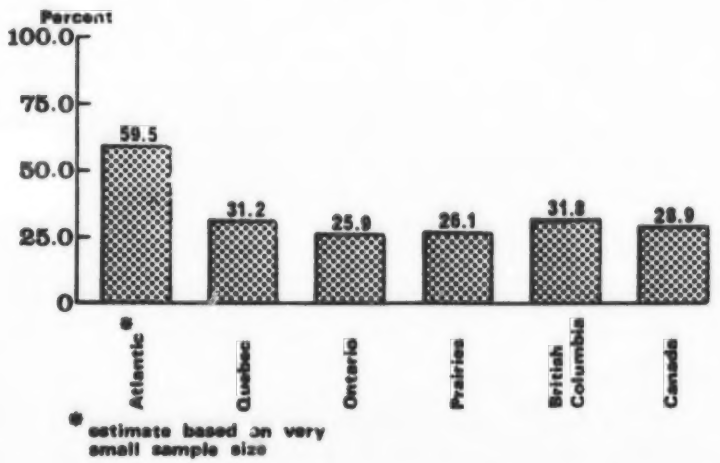
PERCENTAGE OF FIRMS ASSESSING "DEFINITE TO BIG IMPACT" OF MARKET CONDITIONS ON WORK PLANNING



* estimate based on very small sample size

Chart 8.

PERCENTAGE OF FIRMS ASSESSING MARKET DATA AS 'USEFUL' TO 'VERY USEFUL'



* estimate based on very small sample size

Methods of Obtaining Information

Respondent firms were asked to rate the usefulness of different information sources for finding out about new products, materials or techniques related to renovation, including: training courses, trade publications, trade shows, building material suppliers, government publications, clients, seminars and conferences, demonstration projects, and by word-of-mouth.

These sources of information together were rated as being 'somewhat to moderately' useful across the country. The lowest average rating was given by firms in the Quebec region, and the highest rating was assigned by renovation firms located in Ontario.

Renovation firms with 10 to 15 full-time employees considered these information sources on average to be more useful than did larger firms. A similar difference emerges between renovation firms in business for more than a decade, compared to firms entering the industry in the last three years.

Firms which undertook relatively little residential renovation work as a proportion of their total business volume in 1985, rated the list of information sources as being less useful than did those firms which specialized in this activity during that year.

The survey results indicate that the most popular methods of obtaining information on new products, materials or techniques related to renovation are through building material suppliers or by word-of-mouth. Less popular but still important methods of obtaining information are through attendance at trade shows or by referring to trade publications. The desire for more information in published form is apparent from some firms' written comments, which identified the need for a greater "availability of studies" on renovation.

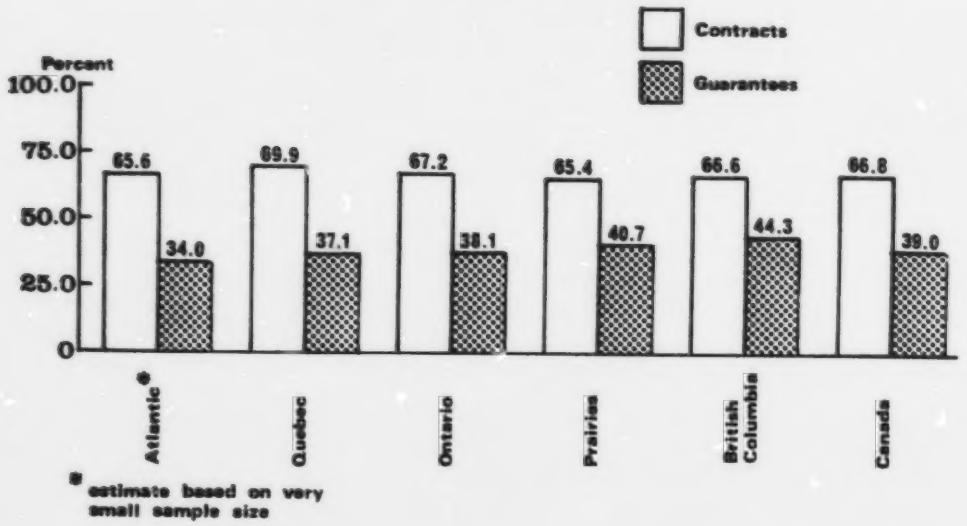
Market Conditions

About three-quarters of survey respondents assessed market conditions, such as interest rates and employment levels, as having no more than a 'moderate' impact on their ability to plan their work in 1985 (Chart 7).

While it is commonly believed that additional information on renovation market conditions would be valuable to the industry, the results of the survey apparently refute that belief (Chart 8). Only about 29 per cent of firms reported that current market data would have been "useful" or

Chart 9.

PERCENTAGE OF FIRMS USING WRITTEN CONTRACTS OR WRITTEN GUARANTEES FOR MOST OR ALL JOBS



* estimate based on very small sample size

"very useful" to them. The firms which responded to the survey generally plan on a very short-term basis, and work on smaller-scale jobs. It may be for these reasons that information on market conditions would have limited strategic value.

D. BUSINESS PRACTICES

The rapid growth experienced by the renovation industry and the increasing emphasis on the modification of the existing housing stock has resulted in a greater interest regarding renovation business practices and their effect on housing quality. The survey addressed issues relating to the use of written contracts and guarantees, the level of business skills within the industry and the degree to which firms subcontract their work.

Contracts

According to the survey, renovation firms more often than not offer written contracts for their work. National and regional results show that 67 per cent of responding firms provide written contracts for 'most to all' residential renovation jobs. Some caution is required in interpreting these results, however, since the term "contract"is undefined in the survey (Chart 9).

Firms which specialise in residential renovation (those with over three-quarters of their sales value in the business) reported that they offer written contracts to a greater extent than those firms for which renovation is a less prominent part of their business. The majority of the firms which specialise in residential renovation stated that they base 'all' of their jobs on written contracts.

Renovation companies which have entered the industry within the last five years tend to offer written contracts to a greater extent than those firms which have been in the business longer. This result suggests that in order to compete effectively against companies whose work is better known, the use of written contracts may be a means for new entrants to gain acceptance in the marketplace and to better compete against older established firms.

Guarantees

In contrast to the relatively common use of written contracts for renovation work, there appears to be much less of a tendency towards offering written guarantees. About one-half of respondent firms claimed that they only provide written guarantees for 'some' jobs. Similar to the results regarding the use of written contracts, firms which

Chart 10.

PERCENTAGE OF FIRMS ASSESSING THEIR SKILLS AS 'ABOVE AVERAGE' BY TYPE OF SKILL

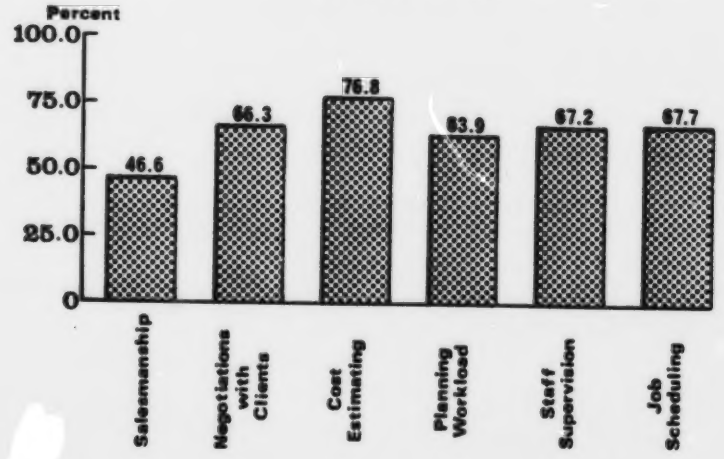
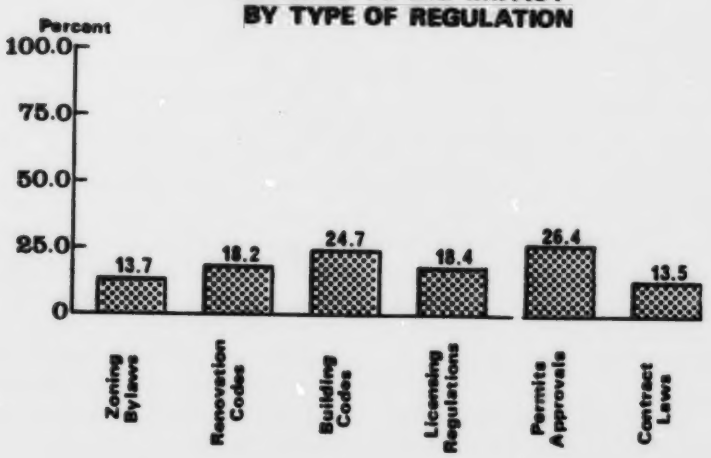


Chart 11.

PERCENTAGE OF FIRMS ASSESSING REGULATIONS AS HAVING A 'DEFINITE TO BIG IMPACT' BY TYPE OF REGULATION



specialize in residential renovation tend to offer written guarantees more often than firms for whom renovation activity is not their primary line of business.

As with the pattern regarding the provision of written contracts, newer renovation firms tend to offer written guarantees to a greater extent than older, more established companies. Again, perhaps in order to survive in an industry differentiated by product quality, new entrants tend to offer performance guarantees in order to compete against the better-known existing firms.

Business Skills

The surveyed firms generally considered themselves as having slightly 'above average' business skills (Chart 10). Older renovation firms tended to rate their business skills more highly than younger, less established companies.

While 77 per cent of responding firms assessed their skills in cost-estimating as being 'above-average', smaller percentages of firms considered their skills to be 'above average' in the realm of salesmanship and in planning workloads.

Subcontracting

The survey shows that residential renovation firms are selective in the type of worker they hire by contract. General labourers and subtrades are retained 'frequently' or 'always' by over one-third of respondent firms. But, a majority of those answering the survey noted that they 'never' subcontract to a professional (e.g. architect, engineer).

The greater emphasis of the surveyed firms on the smaller-scale repair and maintenance type of residential renovation work may lend itself more to subcontracting to labourers and subtrades than to professionals.

B. IMPACT OF GOVERNMENT

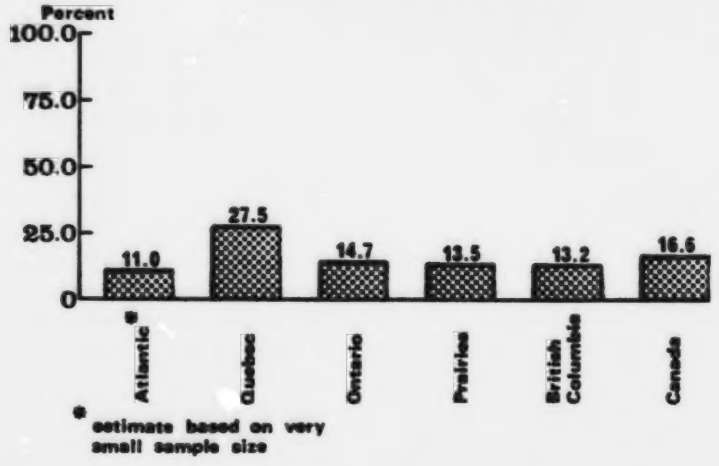
The final area analysed in this summary is the impact of government regulations and financial assistance on the operating costs of residential renovation firms.

Regulations

Government regulations were rated by the responding firms as generally having 'some' but not 'big' impacts on their business operations (Chart 11).

Chart 12.

PERCENTAGE OF FIRMS RECEIVING SOME GOVERNMENT ASSISTANCE ON 60 PERCENT OR MORE OF THEIR JOBS IN 1985



* estimate based on very small sample size

Respondents in all regions cited the permit and approval process as having the largest impact on their operating costs vis-a-vis other regulations they were asked to assess. Respondents' written comments often took the form of recommending "faster processing of permits" and "making it easier to get permits...".

The survey results indicate that building codes, licensing regulations and contract laws impinged upon operating costs to a greater extent in Quebec than in other regions in 1985. For example, over 25 per cent of responding firms from Quebec considered licensing regulations as exerting a 'big' impact on their operations as opposed to 11 per cent nationally.

The survey results show that government regulations tend to have a greater impact on the operating costs of renovation firms in business less than 10 years than on older, more established firms. This appeared to be the case particularly with regard to zoning bylaws. Seventeen per cent of firms which had been in business less than 3 years rated this form of regulation as having a 'big' impact on their operations. Only 5 per cent of the older firms (those in the renovation business longer than 10 years) considered zoning bylaws to affect them in a 'big' way. The differential impact of regulations by age of firm is likely associated with the greater involvement of younger renovation firms in larger scale addition and conversion work.

Financial Assistance

Most of the renovation work done in 1985 was undertaken with very little or no government financial assistance. The survey results show that approximately three-quarters of the responding firms conducted their work almost entirely without government grants or loans in that year.

The Quebec region had the greatest proportion of firms doing a substantial part of their business on government assisted work. Over 28 per cent of Quebec firms undertook subsidized renovation work compared to about 17 per cent for Canada as a whole (Chart 12).

Firms which specialized in residential renovation tended to secure government-assisted jobs in this area to a greater extent than those less involved in this type of work. Based on written comments received, the specialists in residential renovation were also the firms most in favour of increased public sector involvement in the industry.

There was a greater tendency among larger renovation firms to secure jobs which received some government assistance. More than 17 per cent of firms with six or more full-time employees had the majority of their jobs financed with some help from the government, compared to only about 10 per cent of firms with fewer full-time employees.

Finally, the survey indicates that older renovation firms are more likely to secure government-financed renovation work. Of those jobs which were undertaken with some public subsidy in 1985, over 75 per cent were done by firms in the renovation business six years or more. Younger firms had, on average, 6 per cent of their jobs paid for, wholly or in part, by government assistance in 1985, compared to 10 per cent of the jobs of the older firms.